



# County of Los Angeles

## CONTRACTOR HEARING BOARD

713 KENNETH HAHN HALL OF ADMINISTRATION • LOS ANGELES, CALIFORNIA 90012

DAVID E. JANSSEN  
Chief Administrative Officer

*Member Departments:*  
*Chief Administrative Office*  
*Office of Affirmative Action Compliance*  
*Internal Services Department*  
*Department of Public Works*

September 9, 2003

The Honorable Board of Supervisors  
County of Los Angeles  
383 Kenneth Hahn Hall of Administration  
500 West Temple Street  
Los Angeles, CA 90012

Dear Supervisors:

### **DEBARMENT LA INTERNET (ALL DISTRICTS AFFECTED) (3 VOTES)**

#### **IT IS RECOMMENDED THAT YOUR BOARD:**

1. Adopt the proposed findings, decision, and recommendations of the Contractor Hearing Board to debar 2X, Inc. (a.k.a. LA Internet, Inc.), 2X Access, and Internet Business International (referred to collectively as "LA Internet") and its principal owners Ken Reda, Albert Reda, and Louis Cherry (referred to collectively as "owners") from bidding on, being awarded, and/or performing work on any projects for the County of Los Angeles for a period of three years, effective from the date of your Board's approval.
2. Instruct the Executive Officer, Board of Supervisors, to send notice to LA Internet and its owners, advising of the debarment action taken by your Board.
3. Instruct the Interim Director of Internal Services to enter this determination to debar LA Internet and its owners into the Contract Data Base.

#### **PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION**

The purpose of the recommended debarment action against the contractor, LA Internet, and its owners, is to ensure the County of Los Angeles (County) contracts only with responsible contractors who comply with the terms and conditions of their County contracts, and with any relevant Federal, State, and local laws.

#### **Implementation of Strategic Plan Goals**

The recommended actions are consistent with the County's Vision which supports shared values of integrity, professionalism, and accountability, and envisions the County as the premier organization for those working in the public's interest with a pledge to always work to earn the public trust.

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### **FISCAL IMPACT/FINANCING**

Not applicable.

### **FACTS AND PROVISIONS/LEGAL REQUIREMENTS**

#### **The Contractor Non-Responsibility and Debarment Ordinance**

The Contractor Non-Responsibility and Debarment Ordinance, County Code Chapter 2.202, provides the County with the authority to terminate contracts and debar contractors when the contractor has violated any term of the contract or committed specified offenses that indicate a lack of honesty, business integrity, or capacity to perform County contracts. In considering debarment, the County may consider the seriousness and extent of the contractor's acts, omissions, patterns, or practices and any relevant mitigating factors.

#### **Contractor Hearing Board (CHB) Responsibilities**

The Contractor Non-Responsibility and Debarment Ordinance established the CHB to provide an independent review of the contracting department's recommendation to debar a contractor. The CHB is chaired by a representative from the Chief Administrative Office (CAO) and includes one representative from the Office of Affirmative Action Compliance (OAAC) and the Departments of Internal Services (ISD) and Public Works (DPW), respectively. The CAO representative is a nonvoting member except in the event the debarment action is initiated by the OAAC, ISD, or DPW. In such instances, the CAO representative is a voting member of the CHB and the CHB member from the department bringing the debarment action must recuse himself/herself from any participation in the hearing. In this particular debarment hearing, the representative from DPW did not sit on the CHB as the debarment action was initiated against a DPW contractor. Therefore, the CAO representative voted.

#### **LA Internet Alleged Breach of Contract**

DPW requested the CAO to convene the CHB to initiate debarment proceedings against LA Internet and its owners for material breach of a Web Site Promotional Campaign agreement (Contract) between LA Internet and the County, specifically for failure to pay its debts incurred consistent with the Contract, submitting invoices for work never performed and failure to complete or provide specific contract deliverables.

On February 27 2003, DPW sent a certified letter to LA Internet and one of its owners, notifying them of its intent to initiate debarment proceedings against LA Internet and its principal owners and that a hearing on the proposed debarment was scheduled for April 17, 2003 at 1:00 p.m., in

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Board Room B-4, Hearing Room C, of the Kenneth Hahn Hall of Administration. However, after discussion of the adequacy of the notice, Counsel for DPW requested that the hearing be taken off calendar and rescheduled to a later date. DPW was to resend the notice to LA Internet and all principal owners informing them of the new hearing date and provide them with additional time in which to respond.

On May 28, 2003, DPW sent a certified letter to LA Internet and its owners, notifying them of its intent to initiate debarment proceedings and that a hearing on the proposed debarment was scheduled for June 9, 2003 at 1:00 p.m., in Board Room B-4, Hearing Room A, of the Kenneth Hahn Hall of Administration (Attachment I). The notice further advised that failure to confirm the hearing date, or otherwise respond to the notice, might result in LA Internet and its owners waiving all rights of appeal.

At the hearing of June 9, 2003, DPW indicated to the CHB that some of the certified letters were returned undelivered. Further, DPW did not receive any response by the due date of June 3, 2003, nor did they receive any response to a follow-up phone call. As a result, no one appeared to represent LA Internet or its owners at the June 9 hearing and the hearing proceeded with only DPW presenting its case for debarment.

The proceedings were recorded and an audiotape is available upon request, as well as all documents entered into the record as exhibits during the hearing.

- Attachment II is a list of exhibits that were entered into the record.
- Attachment III provides a listing of CHB members, DPW contract managers, and participating attorneys.

## **FINDINGS**

The documentary and testimonial evidence entered into the record before the CHB demonstrated by the preponderance of evidence that LA Internet and its owners violated the terms of the Contract with the County and committed acts or omissions that indicate a lack of business integrity or business honesty. Additionally, LA Internet exhibited patterns and practices that have negatively impacted the reputation of the County as the premier organization for those working in the public's interest. Therefore, by unanimous vote, the CHB made a determination to submit its recommendations to your Board that debarment is appropriate and the appropriate term of debarment is three years, based on the following findings.

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1. Default – Breach of Contract

A preponderance of evidence showed that LA Internet and its owners knowingly violated Part III, Section N.1(a) and (b) of the Contract, which specifies:

**“The County may, subject to the provisions of Paragraph 3 below, by written notice of default to the Consultant, terminate the whole or any part of this Contract in any one of the following circumstances: (a) if the Consultant fails to perform the services within the time specified herein on any extension thereof; or (b) if the Consultant fails to perform any of the other provisions of this Contract, or fails to make progress as to endanger performance of this Contract in accordance with its terms, and in either of these two circumstances does not cure such failure within a period of 10 calendar days (or such longer period as the County may authorize in writing) after receipt of notice from the County specifying such failure.”**

Evidence showed that the Contract, entered into on October 3, 2000, required that LA Internet purchase, through various media outlets, advertising for certain Web sites of DPW. LA Internet submitted invoices to DPW seeking reimbursement for placing advertising with media outlets, which were paid by DPW. Prior to expiration of the Contract (April 3, 2002), DPW learned that LA Internet failed to pay a number of the media outlets, including the Los Angeles Times (\$9,000), KFWB Radio (\$7,800) and NextWave Productions (\$5,900). There was no record of LA Internet having paid these debts prior to the debarment hearing. DPW stated that LA Internet's failure to pay these debts harmed DPW and the County's otherwise excellent relationships and reputation with these media outlets.

Evidence also showed that LA Internet submitted an invoice of \$2,400 to DPW for reimbursement of Los Angeles Times advertising expenses for ads that were never placed. DPW discovered this after paying the invoice. Further, evidence showed that LA Internet failed to complete or provide several project deliverables including: failure to provide a completed list of environment-related Web sites, failure to develop interactive Web pages, and failure to provide a final report.

DPW indicated that the failure to pay debts incurred during performance of the Contract and submission of claims for reimbursement for services not rendered were violations of the California Unfair Competition Act (Business & Professions Code Section 17200 et seq.) and California False Claims Act (Government Code Section 12650 et seq.).

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Based on the evidence presented, the CHB concluded that LA Internet committed multiple breaches of the Contract which reflect both a pattern and practice that negatively reflects on its capacity to perform the Contract and a lack of business integrity.

2. Principal Owners

Oral and written evidence indicated Ken Reda, Albert Reda and Louis Cherry were principal owners of LA Internet during the term of the Contract and are, therefore, responsible for any acts or omissions perpetrated by LA Internet in the course of fulfilling its Contract obligations.

3. Magnitude and Extent of the Contract Breach

A preponderance of evidence showed that for over a period of more than one year, LA Internet and its owners knowingly and repeatedly failed to pay their debts, submitted invoices for work never performed, and failed to complete or provide specific contract deliverables. DPW reported that the total value of the advertising invoices paid to LA Internet, which were not used to pay for services rendered by media outlets or which were for services never rendered, is \$25,100. Because no representative for LA Internet attended the hearing, no information was provided to explain the repeated contracting violations, which the CHB found sufficient to warrant debarment.

4. Period of Debarment

By unanimous vote, the CHB determined that its recommendation to your Board is debarment of LA Internet and its owners for the maximum period of three years. In making this determination, the CHB considered the repeated, serious contracting violations that clearly displayed the lack of business integrity and business honesty of LA Internet officials in the discharge of their duties and responsibilities under the Contract. Furthermore, this lack of integrity may have negatively impacted the County's relationship with the affected media outlets. The CHB also found no evidence of mitigating circumstances, particularly since there was no appearance by a company official or other representative and no attempt by any such person to contact DPW about the hearing.

Therefore, the CHB concluded that the actions of LA Internet and its owners, as presented by DPW during the hearing, justified a recommendation of debarment for the maximum period of three years from the date of Board approval.

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### **IMPACT ON CURRENT PROJECTS**

The Contract between DPW and LA Internet expired on April 3, 2002. The Contract was not extended nor did DPW procure services similar to those contained in the expired contract.

### **CONCLUSION**

We believe the Contractor Non-Responsibility and Debarment Ordinance process is working as your Board intended to help assure that the County contracts only with responsible contractors who comply with all relevant laws, as well as the terms and conditions of their contracts

Respectfully submitted,



MARTIN K. ZIMMERMAN  
Chair, Contractor Hearing Board  
Assistant Division Chief, Chief Administrative Office

MKZ:CF:nl

Attachments (3)

c: David E. Janssen, Chief Administrative Officer  
Dennis A. Tafoya, Affirmative Action Compliance Officer  
J. Tyler McCauley, Auditor-Controller  
Lloyd W. Pellman, County Counsel  
Dave Lambertson, Interim Director of Internal Services  
James A. Noyes, Director of Public Works  
Ken Reda, Owner of LA Internet  
Albert Reda, Owner of LA Internet  
Louis Cherry, Owner of LA Internet



# COUNTY OF LOS ANGELES

## DEPARTMENT OF PUBLIC WORKS

900 SOUTH FREMONT AVENUE  
ALHAMBRA, CALIFORNIA 91803-1331  
Telephone: (626) 458-5100  
www.ladpw.org

JAMES A. NOYES, Director

ADDRESS ALL CORRESPONDENCE TO:  
P.O. BOX 1460  
ALHAMBRA, CALIFORNIA 91802-1460

May 28, 2003

IN REPLY PLEASE

REFER TO FILE: EP-4

Mr. Albert Reda  
IBUI Corporate HQ  
4634 South Maryland Parkway, Suite 101  
Las Vegas, NV 89119

Dear Mr. Reda:

### NOTICE OF INTENT TO INITIATE DEBARMENT PROCEEDINGS AND NOTICE OF CONTINUANCE OF DEBARMENT PROCEEDINGS

On April 17, 2003, the County of Los Angeles Department of Public Works conducted a debarment hearing against 2x Inc., (a.k.a. LA Internet, Inc.), 2x Access, and Internet Business International, Inc. (referred to collectively as "LA Internet") before the County of Los Angeles Contracting Hearing Board. No one appeared on behalf of LA Internet at said hearing. At that time, the Contracting Hearing Board continued the hearing to allow DPW to provide notice of intent to bring debarment proceedings against additional parties affiliated with LA Internet.

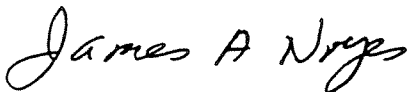
This letter provides notice that Public Works will conduct a debarment hearing against LA Internet, Albert Reda, Ken Reda, Louis Cherry and Wade Whitely on Monday, June 9, 2003, at 1 p.m., at the Kenneth Hahn Hall of Administration, 500 West Temple Street, Board Room B4, Hearing Room A, Los Angeles, CA 90012. You are entitled to appear at that hearing to present evidence or testimony responding to the claims to be presented by Public Works. This action may result in the above listed parties being barred from bidding on or performing work on any projects for Public Works, the County of Los Angeles, or any other County department for a period up to three years. As explained in our letter dated February 27, 2003, Public Works' action is based on its investigation into your conduct with respect to Contract No. 73058 entered into on October 3, 2000, in which LA Internet agreed to provide specified promotional services for certain Public Works websites. A copy of the February 27, 2003, letter is enclosed for your reference.

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**You must confirm with us at (626) 458-5163 that you or your representative will attend this hearing. Failure to confirm your attendance or failure to respond to this notice by June 3, 2003, may result in your waiving all rights to appeal.**

The County of Los Angeles hereby reserves any and all legal rights and entitlements it may have with respect to Contract No. 73058 and your conduct, including, without limitation, pursuing a civil action for breach of contract, breach of the implied covenant of good faith and fair dealing, fraud, violation of the California Unfair Competition Act, and violation of the California False Claims Act. If necessary, said civil action will seek damages including, without limitation, compensatory damages, punitive damages, treble damages, and civil penalties.

Very truly yours,



JAMES A. NOYES  
Director of Public Works

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Enc.

cc: County Counsel (David Michaelson, Warren R. Wellen)  
David Kagel  
KFWB News 980 (Cyndi Sghiatti)  
Los Angeles Times (Teresa L. Hanna)  
Next Wave Productions (Wendy Almasy)



**LIST OF EXHIBITS ENTERED INTO THE RECORD FOR THE DEBARMENT HEARING  
OF LA INTERNET**

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**Department of Public Works:**

- Exhibit "A" – Request for Proposal for Web Site Promotional Campaign
- Exhibit "B" – Contract for Web Site Promotional Campaign
- Exhibit "C" – January 4, 2001 letter from DPW to Ken Reda, President, LA Internet regarding "Deliverables not provided on time"
- Exhibit "D" – May 3, 2002 letter from DPW to Ken Reda, CEO, LA Internet regarding "Payment of Vendors for Contracted Services"
- Exhibit "E" – August 8, 2002 letter from DPW to Al Reda, President, Internet Business International regarding "Final Notice"
- Exhibit "F" – February 27, 2003 letter from DPW to Ken Reda, 2X, Inc., regarding "Notice of Intent to Initiate Debarment Proceedings"
- Exhibit "G" – May 28, 2003 letter from DPW to Albert Reda, Internet Business International regarding "Notice of Intent to Initiate Debarment Proceedings and Notice of Continuance of Debarment Proceedings"
- Exhibit "H" – Invoice for advertising with LA Times
- Exhibit "I" – June 13, 2002 Emails between DPW and Nextwave99, vendor of LA Internet re payment
- Exhibit "J" – May 14, 2002 - Series of emails between LA Times and LA Internet regarding payment
- Exhibit "K" – June 13, 2002 fax from LA Times to DPW regarding invoice/amount owed - \$6,000
- Exhibit "L" – June 13, 2002 fax from LA Times to DPW regarding invoice/amount owed - \$9,000
- Exhibit "M" – June 13, 2003 fax from LA Times to DPW regarding summary of
- Exhibit "N" – July 9, 2002 email between KFWB and DPW regarding payment of invoice
- Exhibit "O" – April 29, 2002 letter from KFWB to DPW regarding payment of invoice
- Exhibit "P" – May 13, 2002 letter from KFWB to DPW re payment of invoice
- Exhibit "Q" – Copy of July 5, 2001 invoice from LA Internet to DPW
- Exhibit "R" – Copies of May 20, 2003 Certified Mail Receipts to principal owners

**LA Internet:**

LA Internet did not appear at the hearing or send a representative. No exhibits were provided.

**ATTACHMENT III**

**PARTICIPANTS IN THE CONTRACTOR HEARING BOARD DEPARTMENT PROCEEDINGS FOR**

**LA INTERNET**

**JUNE 9, 2003**

**1:00 P.M.**

**BOARD ROOM B-4, HEARING ROOM A  
KENNETH HAHN HALL OF ADMINISTRATION  
500 WEST TEMPLE STREET  
LOS ANGELES, CA 90012**

**CONTRACTOR HEARING BOARD**

MARTIN ZIMMERMAN, ASSISTANT DIVISION CHIEF, CHIEF ADMINISTRATION OFFICE  
ROBERT VALDEZ, DEPUTY, OFFICE OF AFFIRMATIVE ACTION COMPLIANCE  
KATHY HANKS, CONTRACTS DIVISION MANAGER, INTERNAL SERVICES  
NANCY TAKADE, LEGAL ADVISOR TO THE CHB, SENIOR DEPUTY COUNTY COUNSEL

**DEPARTMENT OF PUBLIC WORKS**

ROBERT BARKER, SENIOR CIVIL ENGINEER, ENVIRONMENTAL PROGRAMS DIVISION  
COBY SKYE, PRINCIPAL CIVIL ENGINEER ASSISTANT, ENVIRONMENTAL PROGRAMS DIVISION  
WARREN WELLEN, COUNSEL FOR THE DEPARTMENT OF PUBLIC WORKS,  
SENIOR DEPUTY COUNTY COUNSEL

**LA INTERNET**

NO REPRESENTATIVE OF LA INTERNET ATTENDED THE HEARING